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Emerging Market Economy Forum

WORKSHOP ON "FOREIGN DIRECT INVESTMENT POLICY AND PROMOTION IN LATIN AMERICA "

Report

(Lima, 15-17 December 1998)

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EMERGING MARKET ECONOMY FORUM

Workshop on Foreign Direct Investment Policy and Promotion in Latin America

Lima, Peru -- 15-17 December 1998

1. Introduction and Background

1.1 A workshop on **Foreign Direct Investment Policy and Promotion in Latin America** was held in Lima, Peru from 15-17 December 1998. The Government of Peru was host to this event, which was held under the shared auspices of the OECD, the Commission of the European Union and the Peruvian Government. The workshop was attended by 62 participants, including 15 from Member countries, 24 from 12 non-Members, 17 from international organisations and 6 from the private sector (see the list of participants in annex 2). Opening addresses were delivered by H.E. Mr. Alberto Pandolfi, Prime Minister of Peru, Dr Rainer Geiger, Deputy Director for Financial, Fiscal and Enterprise Affairs at the OECD and Rafael Dochao Moreno, charges d'affaires of the EU Delegation in Peru. Dr Geiger presented a message of the OECD's Secretary-General to H.E. Alberto Fujimori, President of Peru (annex 3)

1.2 This workshop took place against the background of the new challenges that are posed by the financial crisis that has hit emerging markets in Asia, but also elsewhere, including in Latin America. This crisis has made it imperative for emerging markets to ensure the sustainability of foreign direct investment inflows. The objective of this workshop was to identify the policies and promotion methods that are necessary to achieve this. Two broad themes were addressed at the workshop: (a) Foreign Direct Investment: Trends, Assessment and Policies and (b) Best Practice in promoting FDI in Latin America. The sessions on the first day were focused, respectively, on the analysis of current trends in FDI in Latin America, and on the framework for international investment rules (see the agenda in annex 1).

1.3 Chairman's conclusions are attached as annex 4.

FOREIGN DIRECT INVESTMENT: TRENDS, ASSESSMENT AND POLICIES

2. FDI in Latin America in the current financial environment

2.1 The discussion of FDI trends was introduced by representatives from Brazil and Chile, and by presentations of reports by ECLAC and by SELA, respectively.

2.2 Spurred by liberalisation and structural economic reforms, global FDI has expanded considerably over the past decade, to US\$400 billion over 1997 (UNCTAD estimate). An increasing share of this FDI has gone to developing countries: one-fifth in 1990, one-third in 1997. Among the 25 principal recipients of FDI over 1990-1997, there were nine non-OECD Members: five Asian economies, and four Latin American ones: Brazil (13), Argentina (16), Chile (20), Colombia (25).

2.3 Asia still received more FDI than Latin America in 1997. However, Asian FDI was affected by the crisis which hit in that year, Latin America was not: FDI into Asia grew by 1.5 per cent, FDI into Latin America by 43.5 per cent. Brazil was the largest recipient, with 35 per cent of the total. In the preceding years (1990-1996), Mexico had been the largest recipient, with 32 per cent.

2.4 While the contrast between Asian and Latin American FDI growth may be striking, the most important thing was perhaps that FDI grew at all in Asia: loans and portfolio capital produced a sizeable outflow from Asia. This contrast underlines the role of FDI as a stable source of capital inflow which can cushion the impact of financial crises. The “tequila crisis” of 1994/'95 did not stop the growth of FDI into Latin America. Brazil, a country severely affected by the current financial crisis, has continued to receive a net direct investment capital inflow. Latin America has remained a competitive venue for FDI, because of the market access it offers, the cost level and the regional free-trade agreements. The relatively favourable development of FDI into Asia has also been spurred by new liberalisation measures; FDI into Korea, which took significant liberalisation measures, has picked up notably since April 1998.

2.5 It has also been encouraging that FDI growth has continued in spite of the completion of the privatisation projects that were the initial generators of FDI in Latin America. Since 1994, an increasing share of FDI has been in the form of greenfield investment; in 1997 this share dropped somewhat, but was still one-third of all FDI.

2.6 Looking at the focus of FDI in Latin America, we can distinguish three categories: (i) investment focused on efficiency enhancement, *e.g.* in the manufacturing of cars which need to compete on the US market; (ii) investment seeking access to natural resources (oil, gas, minerals), and (iii) investment seeking access to local markets (*e.g.* the cement and agrofood industries).

2.7 This being said, the impact of the crisis that originated in Asia has had a marked impact in Latin America. A three-stage process has been observed. The first stage constitutes a diminished access of emerging markets to international capital markets: investors have become more risk-averse world-wide and we have seen a “flight to quality.” More serious, however, has been the second stage, the impact on trade. Demand on export markets has sagged, commodity prices have gone down and Asian exporters have become more competitive as a result of the currency depreciations. Chile is a case in point: over 30 per cent of its exports have Asia as their destination and its economy depends strongly on copper prices. Finally the third stage is that of economic recession, which has indeed been spreading in this part of the world.

2.8 What should be the policy orientation in view of these adverse circumstances? Part of the problem may be a matter of image: it is a challenge for Latin America to show that it is different from Asia. To do so, it will have to continue building a solid track record of open markets for FDI and trade. Another challenge is to strengthen the financial systems, to avoid financial fragility and to promote domestic savings. Industrialisation was a point of debate: there may have been undue focus on investment in traditional, rather than cutting edge, industries and services. If FDI is to support industrialisation, it needs to support the transfer of technology; the Caribbean Basin initiative of the 1980s failed in this respect, because it made preferential access to the US market conditional upon the import of production inputs from the US rather than their local production. Finally, participants frequently pointed to the Free-Trade Agreement of the Americas (FTAA) as the vehicle for furthering economic integration in the coming years and for locking in the achievements in liberalisation and economic reform that have been made.

3. The international framework for foreign direct investment

3.1 Participants discussed the development of a multilateral framework for investment rules and the Latin American involvement in this effort. Latin American countries are interested in international investment rules. FDI is widely seen as an engine of economic development, of diversification of the productive base and of job creation. The point was made that it would be easier to come to an agreement on such rules in Latin America than it has proven to be among OECD countries.

3.2 In this light, could the FTAA be a precursor of, or a testing ground for a multilateral, or global, investment regime? It was observed that NAFTA has been a source of inspiration by raising the standards of other investment treaties in the Americas. Bilateral treaties concluded before NAFTA contain traditional disciplines of investment protection. After NAFTA, we have seen high-level instruments, such as the investment protocols of Mercosur. The BITs concluded by NAFTA partners go beyond the traditional protection provisions by also offering market access on a National Treatment basis. As a result, investment rules have progressively spread over the continent, thus laying a possible basis for high-level agreement within the region.

3.4 While a certain optimism about the prospects of multilateral investment rules in Latin America may be justified, the question should also be asked what lessons can be learned from the MAI negotiations: what elements should be included in a new framework of investment rules, and what elements are bound to run into serious objections?

3.5 One speaker made a distinction between three types of investment disciplines: (i) fundamental guarantees, such as investor protection, national treatment and recourse to arbitration, (ii) "higher integration" disciplines, such as rules for tax, competition, R&D support, subsidies and incentives, and (iii) rules on politically generated issues, such as labour standards and culture. Rules guaranteeing fundamental rights enjoy wide support in the Western Hemisphere and it may be possible to incorporate some of these higher disciplines as well, but difficulties could arise from the politically generated issues.

3.6 With reference to this typology, some speakers cautioned that the MAI process has shown that negotiators should not overplay their hands. Even the fundamental rights can be a bone of contention, as the "Ethyl case" in Canada demonstrated. Higher integration rules, such as those on tax, competition and incentives, were not part of the MAI negotiations, or the MAI only recognised existing arrangements. Difficulties emerged on other issues during the MAI negotiations, notably on performance requirements, culture, the relationship between MAI and existing regional investment rules, and the national sovereignty issues implied in investor-to-state dispute settlement

3.7 However, the inclusion of a broad range of issues in a negotiation might also help achieve consensus, if it creates room for trade-offs. Multilateral investment rules are more than the sum of a number of BITs. At all stages, political support for multilateral investment rules is essential, and such support requires that the rules satisfy the needs of a broad gamut of interested parties. Hence, negotiations have to pay due attention to the politically generated issues, such as labour and environment. This can be particularly difficult. However, in spite of the difficulties down the road, the FTAA may well one of the very few broad fora where investment rules are negotiated over the coming years and will, as such, be watched with particular interest.

BEST PRACTICE IN PROMOTING FDI IN LATIN AMERICA

4. Creating an attractive environment for investors

4.1 The discussion on “Best Practice in promoting FDI in Latin America” occupied the second half of the workshop programme. The first session, dealing with the overall theme of creating an attractive environment for investors and the role of government departments, regional authorities and international organisations in that regard, was introduced by speakers from Argentina, El Salvador and Panama.

4.2 The fundamental role of governments in creating an environment which attracts investors and the benefits of investment to national objectives was emphasised as the most vital part of promotion. Creating a stable political, economic, social environment with appropriate legal and institutional structures will make countries more competitive in attracting investment. Investment has been the driving force of high economic growth in some Latin American countries and has changed the basis of competitiveness by transfer of technology, mobilisation of natural resources and introduction of new ways of managing business. Speakers recommended more focus on factor productivity, reducing the cost of doing business, and investment in human resource development as underpinning an attractive environment.

4.3 Argentina has been one of the most successful countries in the reception of foreign investment in Latin America. The principal reasons for this, based on feedback from investors, are not just the global growth in FDI but the recognition by Argentina of what was described as the “new rules of the game” in competing for and attracting investment. Most notably this involves stability of the democratic political system, adoption of new macroeconomic policies (convertibility, fiscal balance, autonomy of the Central Bank), reform of the state, privatisation, deregulation of markets, creation of an open economy, introducing foreign investment laws which permit liberal movement of capital, and establishing an appropriate institutional framework with transparent regulations and procedures.

4.4 In the institutional arrangements to attract FDI it was suggested that the task was clearer if responsibility for this work was placed in the hands of one agency. New agencies have been established or existing agencies re-constituted in recent years by a number of Latin American countries. In an international environment of increasing competition it was seen as important to assign dedicated and clear institutional responsibilities to promote and attract FDI.

4.5 Primary responsibilities of such agencies are to disseminate information worldwide to improve national image and make investors more aware of investment opportunities. The importance of this task should not be underestimated - historically many investors had a poor image of Latin America as an investment location and may not distinguish well between countries. Agencies need to continuously work to change this image. In addition agencies contribute to regional and provincial development; undertake extensive marketing and selling activity; act as “private sector facilitators”; and participate in policy development and international investment treaty discussions.

4.6 Varying promotion agency models were described by speakers, some based within Ministries and others established as separate more independent entities. There was no consensus on a single model for promotion agencies in Latin America. Also agencies have very different mandates - in Argentina the main role of the agency is provision of information. Other agencies are more directly involved with specific projects. However four important features of agency structure and operations emerged from discussion - the joint involvement of the private sector where possible (e.g. on promotion missions, in meeting new investors and on agency boards where such exist, etc.) was seen as beneficial; the creation of

the one-stop-shop agency insofar as possible; the need to have focused strategies in investment promotion aimed at relevant target sectors and companies with good prospects for high value added products, particularly where small countries are concerned and where they have no comparative advantage through natural resources, is seen as important; and ensuring that agency staff have the necessary business and sectoral skills to be competent discussion partners with potential investors.

4.7 To what extent do investment promotion agencies cause or contribute to growth in FDI? Some speakers raised this key issue and pointed to results achieved prior to the establishment of agencies. It raises the question of the real contribution of IPAs to investment generation and new employment. With more new agencies and resources devoted by governments to FDI promotion it highlights the need for agencies to be given clear mandate/goals and performance properly measured.

4.8 Joint regional cooperation was advocated. The distinction between countries in terms of type of investment sought and national needs was seen as a limiting factor here as well as the reality of international competition for FDI. Panama, for example, differs from some other Latin American countries. It is a service economy with 84% of GDP in the service area, 10% in manufacturing and 6% in the agricultural sector. Among its major objectives are to develop tourism and become a re-distribution centre for other countries. Areas where there is scope for cooperation and action already happening include sharing experience/training between agencies; selected regional promotion campaigns; participation in FTAA discussions and CBI negotiations; sharing experiences on, for example, EU/UNDP funded business centre schemes.

4.9 The second part of this session addressed the role of regional and international organisations in creating the environment for investors and was introduced by the representatives from the Andean Community, the European Union funded AI-Invest Programme, UNIDO and the Foreign Investment Advisory Service of the World Bank.

4.10 The Andean Community has a series of common provisions favouring investment. The community has undertaken concrete work in propagating free trade, integrated markets on goods and services, liberalisation of services, protection of patents, physical integration of the countries through regional transport policies, etc. which improves the wider environment for investors. This work is ongoing with a commitment to a Free Trade Area by 2005. The region was described as an "open territory for FDI" however it was proposed that individual national advancements need to be integrated into a regional approach. Specific actions to reinforce inter-regional investment, examine the harmonisation of incentives as well as linking Andean Business Centres to the investment promotion agencies in the region are proposed.

4.11 The AI-Invest programme, an initiative of the Commission of the European Union, has the goals of (a) strengthening of business cooperation between Latin America and Europe (b) promoting EU investment in Latin America. The main focus is on SMEs and the project has developed in two stages. In the period 1994-95 the Commission of the European Union committed \$10 million to this programme and from 1996 - 2000 a further contribution of \$45 million is envisaged. Using tools such as the TIPS network and a range of offices supported by the EU it can offer sub-contracting or outsourcing prospects and joint venture/business alliance leads. To date there have been 7575 participants and \$203 million in deals have been closed under this programme. New regional and technology transfer initiatives are being considered. This wide ranging programme is an important facilitation in the environment to promote investment in Latin America.

4.12 A comprehensive presentation on UNIDO and the various UNIDO schemes and programmes relevant to Latin America was made. Sustainable industrial development with the main focus on SMEs is a central part of the work of UNIDO. A full range of service modules is available and a selection from these tools and methodologies can be made to address individual country or IPA needs. UNIDO works in cooperation with other international agencies and business associations in delivering services.

4.13 The FIAS representative pointed to the fact that in 1998, for the first time in 10 years, it appears that the total flow of FDI to Latin America has exceeded the flow to S.E. Asia. However Latin American FDI is restricted to too few countries and too few sectors. A challenge facing Latin American countries in the future is to achieve a wider geographic and sectoral spread. Key to this will be understanding industry sector restructuring taking place including the growth of service business and the different business strategies of international companies. This presents both challenges and opportunities to Latin American countries. The example of Intel investing in Costa Rica was widely discussed. It was seen by most speakers as an excellent example of a country which had created an attractive environment for investors, partly through its significant investment in education and skills, and which undertook focused and imaginative marketing in attracting this project.

4.14 The various presentations illustrated divergent application and attitudes to the use of incentives in investment promotion. Some countries stated that no incentives were provided while other countries used a mixture of incentives to attract investors. One speaker referred to the use of non-transparent incentives. Participants suggested that this is an issue which needs to be considered in the context of the FTAA negotiations.

4.15 The critical importance of education and skills availability was referred to as a potential “deal breaker” in attracting FDI. Countries which can offer a workforce with, for example, software, electronic, science and similar technology skills have a decided competitive advantage. In their strategies to create the right environment for investors much stronger emphasis should be given to the importance of education and training. This was particularly the case in attracting the new high technology industry sectors but also an important factor in more traditional industries such as the automotive sector. For many sectors there is a lack of suitable personnel. It was suggested that countries should adopt a more realistic position on their statements that they have an excellent labour force.

5. Expanding Business in Latin America

5.1 The afternoon session of the second day was devoted to a series of national case studies presented by Peru and Chile and industry case studies on the automotive, telecommunications and financial sectors.

5.2 Since 1990 Peru has created a new environment for investors. This has involved many of the reform steps taken by other countries: for example, deregulation of the economy, new laws providing for equal treatment for all investors, free access to sectors, stability of legal regime and tax systems, specific laws for the oil and mining sectors, substantial privatisation (over 190 companies), the signing of 25 bilateral investment protection treaties (including 15 OECD countries). Over \$7 billion in new investment has been attracted and it is estimated that a further \$14 billion investment will be undertaken in the coming years. The CONITE representative described the Peruvian network of agencies which promote the new image and provide information and support to investors. This comprehensive presentation illustrated the progress achieved as a result of the new policies and creation of a new progressive environment for investors in Peru.

5.3 In the second country presentation the successful Chilean experience was related. Chile perceives FDI as an essential component of national development policy. Since the 1970s there has been drastic liberalisation and the country has been very successful in attracting FDI - \$22 billion has already been invested. Chile has created the institutional framework to build this investment. Sectoral opportunities are disseminated and there is an increasing focus on SMEs and valued product areas.

5.4 The private sector case studies presented the perspective of investors who have undertaken major investments in Latin America. Key points to emerge from the initial presentation on the telecommunications sector were:

- Telefonica Internacional, Spain has invested almost \$12 billion in Peru, Chile, Argentina and Brazil and consistent post-takeover investment is taking place each year. Such investment is essentially long term and based on a belief in the future prospects of the region.
- Important factor for investors are: a regulatory framework which ensures security of their very substantial investment - clear and stable rules and regulations for both initial and follow-on investors; a stable macroeconomic environment; capital transfer freedom.
- Apart from direct benefits of this investment it is estimated that 2.5 indirect jobs for each direct job have been created in Peru.

5.5 \$5.6 billion investment has been undertaken in the automotive industry in Argentina in the 1990s versus \$4 billion in the previous decade. This sector represents about 20% of all FDI and 50% of car supply in the Latin American region is in Mercosur. There have been substantial structural changes in the industry - 40 models are being produced compared to 25 models in 1990; the time gap with Europe for introduction of new models has been reduced to approx. 3 years; exports (90% to Brazil which highlights the inter-regional dependency) are now \$2.5 billion per year; human resource skills are a big factor for continued success. Two factors of concern to the industry are the high tax burden and the need for improvements in road infrastructure.

5.6 Completing the industry presentations Banco Santander and Banco Bilbao y Vizcaya outlined their experiences as investors in the Latin American region. Both have made a strong investment commitment to Latin America and are seeking to provide the full spectrum of financial services through a strong presence in the main countries. Latin America offers the opportunity for impressive margins and expansion in an increasingly competitive world financial services market and this plus the historical and commercial connections between Spain and Latin America make the region an obvious target for investment. The presence of such banks in the region has brought benefits to the banking system as a whole - stronger marketing, better systems, access to better services.

5.7 The main conclusions derived from the country and private sector presentations were the importance of political and economic stability combined with transparent juridical systems and regulatory procedures to attracting investment. It was suggested that the Latin American region seems to be moving to a second stage of development where there was need for a focus on specific sectors including some of the newly emerging high growth sectors. Greater emphasis on using existing tools and programmes to integrate technology transfer into FDI promotional efforts is desirable.

6. Investment Promotion Techniques and the Role of the Investment Promotion Agencies

6.1 The third and final day of the workshop addressed promotion techniques and the role of IPAs.

6.2 The MIGA/World Bank speaker outlined that organisation's role in capacity-building of investment intermediaries through training, workshops and their IPA network; dissemination of information on investment opportunities, business operating conditions and business partners; and investment facilitation by bringing different parties together. The central point that knowing clearly the product/service provided, the customer and the competition was emphasised. Successful investment promotion had pointed to important practices which facilitated effective promotion such as mixed government/private sector structures in agencies; governance by a board of directors with strong private sector input; secure sources of funding; budgetary/administrative independence; exemption from civil service employment regulations; and separation of regulatory and promotional responsibility. The importance of getting the climate right for investors (referred to extensively by other speakers), and 'providing solutions' as well as good customer care to investors were seen as central to successful investment promotion.

6.3 The OECD presentation on this subject summarised critical issues for investment promotion and agencies in today's competitive world environment:

- Clear distinction needs to be made in promotion between different categories of FDI: location-specific investment which is restricted to a particular location (e.g. to get access to natural resources or the acquisition of a specific company) and mobile investment (both 'greenfield' and expansion projects) which can locate in any one of numerous countries
- Alongside unprecedented growth in the volume of FDI there should also be greater recognition of the changing pattern of FDI driven by globalisation and the impact of technology, e.g. more and smaller companies were investing, new sectors and in particular technology and service businesses are fertile sources of FDI.
- The essence of successful promotion is in establishing meaningful relationships with identified target sectors and companies and providing strategic solutions to such companies. All promotion techniques used should be measured against that objective.
- The most successful investment promotion agencies act like top class commercial service businesses. Their approach is highly professional and efficient. They act as development agencies where they seek not just to undertake promotion but to improve the wider environment for investors by liaising and instigating change with relevant authorities and are innovative in seeking investment in new and emerging sectors. They have the mandate and resources to undertake their work and are central to national industrial policy.
- There is a clear "best practice" agency model which should be recognised. Key elements of the "best practice" model included having a clear service management system which spells out the service they offer, target segment, and delivery method; uses customised marketing to target clients; pursues FDI in all elements of the value chain; roots FDI through linkage with local suppliers; achieves a high volume of repeat investment; and is focused also on opportunities in new sectors such as Ecommerce, software, biotechnology, multimedia, etc.

6.4 Commenting on the previous presentations the Dominican Republic speaker outlined action being taken in his country to develop the environment for FDI. A new agency to promote FDI has been established and action being taken to improve the environment for investors. The main focus of action is to improve the regulatory environment, improve human resource skills and develop infrastructure such as ports and airports. A "roadmap" which charts present procedures for investors has been prepared and is the basis of reform proposals.

6.5 The chairman's conclusions on the workshop are attached at annex 4.

ANNEX 1

OECD
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Directorate General IB
External Relations

In co-operation with

The Peruvian Government

WORKSHOP ON
FOREIGN DIRECT INVESTMENT POLICY AND PROMOTION
IN LATIN AMERICA

Lima, 15 - 17 December 1998

AGENDA

Tuesday, 15 December 1998

08: 30 Registration

09: 00 **Opening Addresses**

Mr. Alberto Pandolfi, Prime Minister of Peru

Mr. Rainer Geiger, Deputy Director, Financial, Fiscal and Enterprise Affairs, OECD

Mr. Rafael Dochao Moreno, Charge d'affaires, European Commission Delegation in Peru

Foreign Direct Investment: Trends, Assessment and Policies

Morning session*

09: 30 **FDI in Latin America in the Current Financial Environment**

Chairperson: Mr. Ricardo Harten

President

National Commission on Foreign Investment and Technology, CONITE

Ministry of Economy, Peru

Mr. Antonio Martins, Registry of Foreign Capital, Central Bank, Brazil

Mr. Eduardo Moyano, Executive Vice-President, Foreign Investment Committee, Chile

Presentation on the ECLAC Annual Report on Foreign Investment in Latin America and the Caribbean by *Mr. Michael Mortimore, Unit on Investment and Corporate Strategies, ECLAC*

Presentation on the SELA report on External Financing and External Debt in Latin America and the Caribbean by *Ms. Manuela Tórtora, Senior Consultant, SELA*

Experts from Latin American countries will assess the effects of the current financial environment on the prospects for FDI. They will also discuss the policy response required in the present circumstances.

12: 30 Lunch

* Coffee break 10:45-11:15

Afternoon session**

14: 00 The International Framework for Foreign Direct Investment

Chairperson: Ms. Anabel Gonzalez, Vice-Minister, Ministry of Foreign Trade, Costa Rica

- Multilateral Framework for Investments

*Mr. Wolfgang Hantke
Head of Division for North and Latin America
Federal Ministry of Economics, Germany*

- Inter-American Investment Policies

*Mr. Roberto Echandi
Director General for International Trade and Investment Negotiation
Ministry of Foreign Trade, Costa Rica*

*Mr. Carlos Herrera
Secretary General
National Commission on Foreign Investment and Technology
FTAA Chief Negotiator, Peru*

*Ms. Maryse Robert
Principal Specialist, Trade Unit
OAS*

Participants will discuss the prospects for developing a multilateral framework for investment rules and ways to ensure an active involvement of Latin American countries in this process.

17: 00 Conclusions

19: 00 Reception hosted by Government of Peru

** Coffee break 15:15-15:45

Wednesday, 16 December 1998:

Best practices in promoting FDI in Latin America

Morning session*

09: 00 Creating an attractive environment for investors

Chairperson: Mr. Werner Corrales, Venezuela Ambassador to WTO and UNCTAD

- The role of government departments and regional authorities- how administrations help or impair the regulatory environment

*Mr. Lisandro Barry, Director
Investment Development Agency, Ministry of Economy, Argentina*

Comments:

*Mr. Werner Romero, Trade and Investment Promotion Counselor
Ministry of Foreign Affairs, El Salvador*

*Mrs. Carmen Gisela Vergara, Director, Promotion and Production Department,
Vice-Ministry of Foreign Trade, Panama*

Open Discussion

- The role of regional and international organisations

Mr. Juan Carlos Mathews, Al-invest Programme, Director, Eurocentre, Peru,

Mr. Antonio Pinto-Rodrigues, Director, Investment and Technology Promotion, UNIDO

Mrs. Mónica Rosell, Director, Investment Department, Andean Community

*Mr. Ben Rowland, Program Manager, Latin America and the Caribbean
Foreign Investment Advisoru Service - FIAS*

Creating the right environment for potential investors is a fundamental cornerstone of policies and programmes in an increasingly competitive world environment for foreign direct investment. This session will address this critical factor and the role of government, regional and international organisations in that task.

12: 30 Lunch

* Coffee break 10:30-11:00

Afternoon session**

14: 00 Expanding business in Latin America

Chairperson: Mr. Werner Corrales, Venezuela Ambassador to WTO and UNCTAD

- The Peruvian Experience: A case study
Mr. Carlos Herrera, CONITE.on behalf of Ms. Rosario Almenara, Vice-Minister of Economy, Peru
- The Chilean Experience: A case study
Mr. Héctor Casanueva, Director, Pro-Chile, Ministry of Foreign Affairs, Chile

Discussion of case study
- Private Sector Case Studies
Communications Sector:
Mr. Antonio Golderos, Director General de Planificación y Recursos, Telefónica Internacional, Spain

Discussion of case study

Automotive Sector
Mr. Mario Dasso, Deputy Director, Asociacion de Fabricas de Automotores, Argentina

Discussion of case study

Financial Sector:
Mr. Alberto Ridaura, , Directory Advisor, Banco Santander

Comments and Conclusions:
Mr. Jose Ignacio Sanchez Asain, General Director, Latin America region, Banco Bilbao y Vizcaya

Discussion of case studies

What is the practical experience of countries in promoting investment and investors in undertaking investment in Latin America? From case studies presented participants will consider and discuss this subject.

17: 00 Conclusions

18: 00 Reception hosted by the EU Commission

** Coffee break 15:45-16:15

Thursday, 17 December 1998

Best practice in promoting FDI (continuation)

09: 00* **Investment Promotion Techniques and the role of the Investment Promotion Agencies**

Chairperson: Mr. Rainer Geiger, Deputy Director, Financial, Fiscal, and Enterprise Affairs, OECD

Mr. Mamadou Barry, Investment Promotion Officer, MIGA, World Bank

Mr. Declan Murphy, Senior Policy Advisor, OECD

*Mr. Eddy Martínez, Director,
Dominican Republic Office for the Promotion of Investment*

Open discussion

The mandate and role of investment promotion agencies and the techniques employed can be central to successful policy and promotion. Is there a best practice model that agencies need to consider? In this final session this important issue will be addressed.

11: 00 **Concluding Session**

Chairperson: *Mr. Rainer Geiger, Deputy Director, Financial, Fiscal, and Enterprise Affairs, OECD*

Summaries of previous sessions

Policy Responses

Panel Discussion

Concluding remarks

12: 15 **Closing Address :**

Mr. Jorge Baca, Minister of Economy and Finance, Peru

12:30 **Press Conference**

* Coffee break 10:30-11:00

ANNEX 2

OECD
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<p>LIST OF PARTICIPANTS LISTA DE PARTICIPANTES</p>
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ANNEX 3

**MESSAGE FROM THE HONOURABLE DONALD JOHNSTON,
SECRETARY-GENERAL OF THE OECD,**

TO HIS EXCELLENCY PRESIDENT ALBERTO FUJIMORI OF PERU

on the occasion of

the Workshop on Foreign Direct Investment Policy and Promotion in Latin America,

held in Lima on 15-17 December 1998

Mr President

I would like to express the OECD's gratitude to your Government for its generosity in hosting this Workshop on Foreign Direct Investment Policy and Promotion in Latin America. The invitation by your Government confirms that Latin America's interest in the OECD's work is spreading. OECD Members and Latin American countries have a mutual interest in a dialogue on foreign direct investment policies. Indeed, OECD Members can learn from the bold reforms implemented throughout Latin America over the past decade.

This meeting is held at the end of a challenging year for Latin America. The spin-off effects of the financial crisis in Asia and Russia, have also been felt in this part of the world. However, it is very encouraging to observe that the countries affected by this crisis have not strayed from the path of economic reform. We have not seen a resurgence of protectionism, which has a proven record of ill-serving the countries that resort to them. I express my admiration for the reforms pursued throughout Latin America over the past decade and the results these have produced.

Globalisation has been enormously enriching to the world through increased trade, investment and technology flows, but it raises also difficult challenges. Growing concerns among our populations in the present context of instability and uncertainty, underscore the fragility of the reform process and have given ammunition to those who would prefer to try to maintain the status quo.

A major role of the OECD is helping chart the path for countries -- OECD and non-OECD alike -- to take advantage of the opportunities and meet the challenges of globalisation. In this context, this meeting represents an opportunity for a strengthening of ties between Peru and the OECD, and I

will mention just a few other areas where co-operation with the OECD could be relevant to Peru's current policy challenges.

Starting in 1999, the OECD's Committee on International Investment and Multinational Enterprises will continue work on international investment policy issues and multilateral rules. These matters will be discussed in the context of important related issues, such as employment and labour relations, the environment, competition and good corporate conduct. The OECD would be pleased to have the contribution of non-Member countries to this work.

In the field of taxation, the OECD has well-known expertise in the area of international taxation and has developed common standards, in particular the Model Tax Convention and the Guidelines for Transfer Pricing. Preliminary contacts have been established with your government, with a view to it participating in the OECD co-operative activities in the area of taxation -- as well as in other areas such as trade, environment, labour markets, corporate governance and combating corruption.

Mr. President, it is my firm belief that, in this era of growing global interdependence, countries, can only benefit from international co-operation in pursuing policies for both reform and sustainable growth. The OECD stands ready to pursue mutually beneficial dialogue on economic and social reform measures with your Government, along with other interested non-Member countries.

Donald Johnston
Secretary-General, OECD
15 December 1998

ANNEX 4**OECD/ EC WORKSHOP ON INVESTMENT POLICY AND PROMOTION IN LATIN AMERICA****CHAIRMAN'S CONCLUSIONS**

The workshop held in Lima on 15-17 December 1998 was organised by the OECD, the Commission of the EU and the Government of Peru as part of an ongoing dialogue on foreign direct investment. It was attended by representatives of OECD, Latin American and Caribbean countries and international organisations.

The principal objective of the workshop was to share the experience on foreign investment policy and promotion in Latin America and to assess the prospects for sustained investment in the region. For this purpose participants assessed current investment trends, reviewed policy developments and the need of multilateral rules and discussed specific aspects of investment promotion on the basis of country and case studies and presentations by international organisations.

Participants noted an unprecedented level of foreign investment flows to Latin America which grew at 43.5% over 1997. Since the beginning of the 1990s FDI inflows in Latin America and the Caribbean have risen more than five-fold. From 1990 until present, total FDI inflows into Latin America have amounted to over US\$ 250 billion. Increasingly, Latin American countries find themselves in the position of capital exporters, in particular for outward direct investment within the region.

Privatisation has been one of the strongest driving forces for FDI. As the privatisation process is now coming to a close in many countries, there is a need for ensuring sustained investment flows through expansion of existing enterprises, greenfield investment and private financing of infrastructure and investment utilities through concession agreements. Participants felt that there is a strong potential for FDI growth in many sectors, in particular in infrastructure, energy and services.

The benefits of foreign investment were recognised. In a period of financial instability, it represents long-term commitments, increases the competitiveness of the private sector, both in domestic and export markets, and helps cushion countries from external shocks. While the impact of the financial crisis is felt in terms of reduced growth, Latin American countries have performed relatively well due to strong economic fundamentals and the implementation of structural reforms during the current decade.

The challenge is now to create longer-term competitive advantages for countries of the region through an appropriate policy mix. This implies: open markets and the pursuit of regional integration, continuation of legal and institutional reforms, in particular in the field of tax systems, strong emphasis on education and human resources development, sound environmental policies including waste management and clean technologies, and the modernisation of the services sector.

Investment promotion agencies have an important role to play in helping develop a suitable policy framework for investment and private sector development, providing reliable information on investment opportunities and providing a service function to foreign investors. They should cooperate closely with the private sector, including chambers of commerce and business associations. It was also suggested that greater efforts were needed to focus promotion activities on key sectors representing a comparative advantage and to undertake promotional activities on a regional basis. The need to give greater emphasis to integration of investment promotion, technology transfer and environmental performance was underlined.

Participants recognised the need for multilateral rules which would provide a stable and equitable framework for investment in a globalised economy. There are good prospects for the development of such rules within the FTAA. Countries within the region have achieved a high degree of convergence in national policies and structural reforms. The network of bilateral and regional trade and investment treaties is expanding and already includes elements, such as market access and national treatment, and the countries of the region have actively participated in discussions in international fora such as WTO and UNCTAD, as well as in the dialogue with the OECD in the context of the negotiations on a multilateral agreement on investment (MAI).

Participants felt that a high-standards agreement was feasible, building on the progress achieved at national, regional and international levels. Such an agreement would include fundamental principles of liberalisation and protection of investment and could address related subjects, such as competition, incentives, taxation, labour and environment. However the MAI negotiations have shown the complexity of some of these subjects and demonstrated the need for careful political management of the negotiation process and dialogue with interested parties from business, labour and other parts of civil society. While the MAI had not been concluded and negotiations are no longer taking place, core elements of a multilateral investment framework had been identified. Discussion in the OECD will continue on investment rules and related subjects, such as labour, environment, sustainable development and standards of behavior for multinational enterprises. This work is open for participation of interested non-members countries.

Participants will welcome a continuing dialogue between OECD and Latin American countries on issues related to investment and private sector development including taxation, corporate governance, the role of institutional investors and action against bribery in international business transactions. They expressed their appreciation to the OECD, the EU Commission and the Government of Peru for their support for this workshop. They called for future periodical meetings where investment trends, policies, rules and promotion strategies could be reviewed and experience among promotion agencies and the private sector exchanged. Such meetings could also address specific issues of capacity building and create synergy among national and international institutions.